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AZ CORP COMMISSION
DOCKET CONTROL

June 30, 2009

ORIGINAL

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Docket Control
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

Arizona Corporation Commission
DOCKETED

JUN 30 2009

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Re: *Bankruptcy Report; Docket No. G-00000C-08-0501*

Dear Sir or Madam:

On behalf of SemStream Arizona Propane, LLC, attached is a status memorandum concerning the SemGroup, L.P. bankruptcy. SemStream Arizona Propane, LLC is not in bankruptcy. However, the report concerns certain entities affiliated with it or its parent which are involved in a bankruptcy case currently pending in Delaware. This report is subject to the reservations and statements set forth at the conclusion of the attached memorandum.

Very truly yours,

GALLAGHER & KENNEDY, P.A.

By:

Michael M. Grant

MMG/plp
20474-3/2132673
Attachment

cc (w/attachment): Bob Gray, Utilities Division (e-mail)
Wes Van Cleve, Legal Division (e-mail)

Original and 13 copies filed with Docket
Control this 30th day of June, 2009.

GALLAGHER & KENNEDY

P.A.
LAW OFFICES

MEMORANDUM

TO: Docket Control, Arizona Corporation Commission
FROM: Joseph E. Cotterman, Gallagher & Kennedy, P.A.
SUBJECT: SemStream Arizona Propane LLC; Periodic Status Report Concerning SemGroup, L.P. Chapter 11 Case No. 08-11525 (BLS)
DATE: June 30, 2009

This memorandum provides a brief update to our memorandum of April 1, 2009, regarding the consolidated Chapter 11 cases pending under the lead case caption *In re SemGroup, L.P.*, in the United States Bankruptcy Court for the District of Delaware, Case No. 08-11525 (hereinafter, the "SemGroup Bankruptcy"). Gallagher & Kennedy's client, SemStream Arizona Propane LLC ("SemStream"), is not a debtor in the SemGroup Bankruptcy and Gallagher & Kennedy is not representing any entity in the SemGroup Bankruptcy.

Subject to the reservations and statements set forth at the conclusion of this memorandum, the following is a summary of certain events, hearings and filings in the SemGroup Bankruptcy since our April 1st update. As in any large commercial bankruptcy, there are literally thousands of filings in the SemGroup Bankruptcy that appear to be procedural, administrative matters of minor significance or matters of intermediate substance that are irrelevant to SemStream. Such motions include motions to sell particular items of personal property, to assume or reject particular contracts, to obtain various types of financing and to resolve the many contract disputes that are always attendant to the bankruptcy scenario. The foregoing is only an illustrative example. No such motions regarding SemStream have been filed. In general, some of the more significant events as reflected in public filings in the SemGroup Bankruptcy include the following:

The SemGroup Debtors filed their reorganization Plan on May 15, 2009. The Plan proposes that the SemGroup Debtors will emerge from Chapter 11 bankruptcy protection reorganized around SemGroup's core business with a restructured deleveraged balance sheet designed to maximize recoveries to creditors. Specifically, the SemGroup Debtors expect their total available distributable value as of the Effective Date of their plan to be approximately \$2,267 million dollars, consisting of a combination of cash, New Term Notes, New Common Stocks and Warrants. The Plan further proposes to allow the Debtors to retain \$50 million of cash for working capital and to redistribute the remaining cash, New Term Notes, New Common Stock and Warrants, Producer Preferred Distribution Rights and Litigation Trust Interests to holders of Allowed Claims.

If the SemGroup plan is confirmed, the Reorganized SemGroup Companies' primary focus will be to continue providing midstream energy-related services to third-party customers and itself, including gathering, marketing and storage. Their operations will be smaller in scale due to a shift away from significant marketing and trading-related activities. Each Reorganized Debtor will continue to exist and operate after the Effective Date as a separate corporate entity, limited liability company, partnership or other form as the case may be. On or soon after the Effective Date, applicable distributions may be made to each holder of an Allowed Claim pursuant to the Plan. The Plan provides a description of classification for claims and the treatment of such claims on or after the Effective Date.

When a Creditor does not approve of any portion of the reorganization Plan and Disclosure Statement, the Creditor will file an Objection to the confirmation of the Plan and Disclosure Statement. The Objections to the Plan and Disclosure Statement filed by various Creditor groups to date in this bankruptcy case allege, *inter alia*, that the SemGroup Debtors failed to provide adequate information in the Plan and Disclosure Statement so as to allow certain Creditor groups to ascertain specific information regarding the Plan for each Creditor group. Specifically, Objections allege a failure to adequately specify and disclose the treatment of Creditors' claims for individual Debtors.

None of the filings in the SemGroup Bankruptcy indicate that the SemGroup Debtors are taking any action that would impact or implicate SemStream Arizona's operations in the immediate future. In short, the SemGroup reorganization Plan contemplates exit financing to replace pre-bankruptcy secured debt, and a reorganized equity ownership structure, at the highest levels of the SemGroup corporate family tree. The SemGroup Plan does not contemplate a liquidation, sale, or restructuring of SemStream Arizona or its SemStream parent. In fact, the SemGroup Plan and Disclosure Statement indicate that a significant component of the reorganization strategy is the continued operation and growth of the SemStream entities to equal or exceed pre-bankruptcy levels. Other than the foregoing, it does not appear that SemStream Arizona has been the subject of any significant discussion in any filings.

This memorandum is limited to a review of the filings in the SemGroup Bankruptcy, and Gallagher & Kennedy ("G&K") expresses no opinions on those filings, the status of the SemGroup Bankruptcy or any other matter. G&K is not representing any entity in the SemGroup Bankruptcy. The information set forth herein is merely a summary of the information set forth in the filings in the SemGroup Bankruptcy and is not, and should not be interpreted as, legal advice. Significant events may occur that are not reflected on the SemGroup Bankruptcy docket which may affect the accuracy of the information reflected herein. G&K takes no responsibility for the accuracy of the information set forth in the SemGroup Bankruptcy filings. This memorandum is provided as a courtesy only to the Commission and not as a guaranty or warranty of any of the matters discussed herein or in the documents referred to herein.